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SUBJECT: MINFIN OFFICIAL BRIEFS DEPSEC KIMMITT ON WEALTH
FUNDS, MARKETS, IRAN

Classified By: ECON MINCOUNS SETH WINNICK FOR REASONS 1.4 B & D

11. (C) SUMMARY: In an October 12 meeting with Treasury Deputy Secretary Kimmitt, Finance Ministry Director General Xavier Musca highlighted his concerns regarding sovereign wealth fund (SWF) investments, particularly when not made via intermediaries. When the Deputy Secretary inquired as to how Finance Minister Lagarde hoped to standardize securitized financial products without stifling innovation, Musca's staff expert explained that market-driven standardization is bound to emerge and to help ensure liquidity. Noting President Sarkozy's personal commitment to pursue further sanctions on Iran, Musca said his Ministry would implement whatever the "political decision" was. Raising impending Paris Club negotiations, Musca said that a generous GOF position on Jordan's debt buy-back is endangered because of lack of assurances that the U.S. would not subsequently reach a more favorable deal. END SUMMARY.

INVESTMENT AND SOVEREIGN WEALTH FUNDS

12. (C) The Deputy Secretary stressed the importance of ensuring the free flow of international investment and of differentiating between sovereign wealth funds (SWFs) and state-owned companies, noting that some of the latter (e.g., French ones) operate like commercial entities while others don't. Agreeing with Kimmitt on the necessity of the distinction, Musca nevertheless outlined a number of his concerns regarding SWFs, on both a political and a technical level. To illustrate the first, he cited the example of Societe Generale's failed bid to buy a Chinese bank and suggested that if a Chinese fund were to buy a French bank the political blowback would make GOF acquiescence in the Chinese acquisition "unimaginable." On a more technical level, he said he doubted that generic approaches such as rules on governance and transparency would suffice in cases such as Russia and China, where it was hard to take seriously purported "independence" of board members, for instance. The best means for SWFs to reassure everyone that they are only seeking financial returns and not market manipulation, he said, was to keep a low profile, e.g., staying below three percent interest in any one company and investing through intermediary funds rather than directly. He said that French policy in this area is still under debate but, concerning broad investment reviews, he continued to resist defining sectors besides the arms industry as "strategic." He explained that the EU could finesse the concerns about Gazprom investment in European energy sector by invoking the Energy Charter Treaty.

STANDARDIZATION OF SECURITIZED PRODUCTS

13. (C) Referring to a recent Financial Times article by

Finance Minister Lagarde, the Deputy Secretary asked how the standardization of securitized products could be implemented without stifling vital innovation in financial markets. Financial Affairs Assistant Secretary Thierry Francq said the Lagarde article drew attention to the essential role of securitization and predicted market-driven standardization to reduce uncertainty, in the same way that currency swaps had matured from one-of-a-kind operations into more standardized operations. Musca stressed that the GOF was interested in an international dialogue and consensus, not national or even EU regulation of securitized products, in most cases. He expressed concern about having some control over what institutions or instruments are allowed to create credit. The one point of divergence with the U.S. might be that France insists on deciding who can extend credit. Singling out rating agencies, he suggested that better use of "Chinese walls" to preclude conflicts of interest in their operations as well as a more sophisticated distinction between liquid and illiquid assets in rating securities would go a long ways in quieting their critics.

IRAN

¶4. (C) Responding to the Deputy Secretary's inquiry regarding next steps on Iran sanctions, Musca said that the issue is highly political but President Sarkozy has not yet decided what specific further steps France will take. Because there are virtually no barriers to financial flows within Europe, Musca said his Ministry has urged against bilateral actions and favored financial measures that are as broadly based as possible so that they will be effective. Referring to recent Financial Action Task Force action towards black-listing Iran for its lack of cooperation, he noted that major financial centers such as Switzerland needed to be brought on board.

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PARIS CLUB NEGOTIATION OF JORDAN DEBT BUYBACK

¶5. (C) Referring to the October 17 Paris Club negotiations with Jordan, Musca explained that beyond wanting to uphold the "debtor solidarity" principle of the Paris Club, the French government needs assurance that reasonable or even generous French treatment of Jordan's early debt buyback proposal won't backfire, politically. France is Jordan's largest Paris Club creditor and has no problem being forthcoming; indeed, Musca is under considerable pressure to do so. At the same time, the Finance Ministry must be in a position to assure Parliament that other debtors including the U.S. will not subsequently cut a better deal with Jordan.

He acknowledged that market conditions could change and specified that by a better deal he didn't mean simply in absolute terms of a lower discount but rather a discount above market value of the debt at the time of the respective buyback. Musca claimed to Econ MinCouns after the meeting that the King had called President Sarkozy to press Jordan's case and the French President had responded favorably but stressed that France has concerned that Jordan could strike a more favorable deal with the U.S.

¶6. DEPSEC Kimmitt has cleared this message.
Please visit Paris' Classified Website at:
<http://www.state.sgov.gov/p/eur/paris/index.cfm>

Stapleton